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S E C R E T SECTION 01 OF 03 BERLIN 001468

SIPDIS

TREASURY FOR BURKE AND EDDY

E.O. 12958: DECL: 09/22/2018

TAGS: EFIN PRELM IR GM

SUBJECT: READ OUT OF TREASURY U/S LEVEY'S VISIT TO GERMANY

REF: BERLIN 1229

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Classified By: DCM John M. Koenig for reasons 1.4(b) and (d)

¶11. (S) SUMMARY During meetings with a comprehensive slate of senior Chancellery and Finance, Economic and Foreign Ministry officials on September 11, 2008, U/S Levey focused on three main topics: 1) The recent U.S. designation of IRISL as a proliferation-related entity using deceptive financial and commercial conduct that has the effect of luring banks and other companies into illicit transactions; 2) the need to approach the insurance industry to discuss the potential for abuse of the sector by Iran's illicit conduct (Note. As a financial service, insurance is covered by existing UN Security Council resolutions), and 3) BHF Bank's relationship with Iranian banks of proliferation concern. When asked about U.S. exports to Iran, U/S Levey pointed out that U.S. exports to Iran are dwarfed by German exports, and are limited to humanitarian items, agricultural products and medicines, as required by Congress. U/S Levey also discussed current U.S. efforts aimed at reducing the number of products from U.S. firms reaching Iran via third country exports. While German officials welcomed the message on the promise of new, more robust enforcement of existing laws against U.S. companies whose products enter Iran, they were cool to the presentation on BHF Bank and non-committal on the application of insurance and re-insurance to existing UN sanctions. End Summary.

IRISL / INSURANCE

¶12. (S) U/S Levey also addressed the recent U.S. designation of the Islamic Republic of Iran Shipping Lines (IRISL) and its related entities for facilitating shipments for proliferators. He provided information illustrating how IRISL uses deceptive practices to mask its involvement in illicit conduct, which increases the risk that financial institutions providing services to IRISL could be contributing to the illicit activity. He also stressed paragraph 6 of UNSCR 1737, which prohibits the provision of "financial resources or services" related to Iran's nuclear program, included providing insurance and reinsurance to IRISL, and possibly to any Iranian airline transporting proliferation-related materials. While the primary insurers of IRISL vessels are British, U/S Levey invited collaboration from Germany to the extent their insurers or reinsurers cover IRISL vessels or other activities.

¶13. (S) At the Economics Ministry, Dr. Kruse stated that the responsibility for insurance matters is with the Finance Ministry and noted that sanctions against airlines or their

insurers might be too extreme, as they would have the practical effect of grounding the airline. Further, Dr. Ursina Krumpholz raised the possibility that insurance is addressed by UNSCR 1803 (paragraph 9) which urges vigilance over providing financial support for trade with Iran, including export credits, guarantees, or insurance. U/S Levey responded that the language in UNSCR 1803 regarding export credit insurance does not exclude the prohibition of other forms of insurance as a financial service covered in paragraph 6 of UNSCR 1737. German officials did not contest this point.

¶ 14. (S) At the Finance Ministry, Dr. Wenzel asserted that the unique nature of many reinsurance transactions makes them a less than ideal tool to target specific sectors or entities. Wenzel also opined that, if the primary insurers comply with such a sanctions regime, the need to address reinsurance is obviated. U/S Levey responded by asserting that specific policy provisions and endorsements may help this approach achieve its goals.

CONCERNS REGARDING BHF BANK

¶ 15. (S) U/S Levey conveyed concerns over BHF Bank's continued relationship with Iran and provided examples about how Iran uses deceptive practices to prevent detection and evade sanctions. U/S Levey described how continuing a relationship under these circumstances risks providing financial services to UN designated entities, even if unwittingly. In fact, U/S Levey shared an example of where BHF Bank was involved in a transaction for which Bank Sepah was a party and noted how this is a UNSCR violation.

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¶ 16. (S) The response from the various German officials with whom U/S Levey met was similar. At the Economics Ministry, Deputy Director Dr. Michael Kruse emphasized the role of the German export control authority BAFA in reducing trade with Iran, and stated that questionable export cases go to BAFA for review. U/S Levey stressed that BHF Bank's transactions were not/exports, but a financial service. Further, U/S Levey said that, given Iran's ongoing illicit conduct as recognized by the international community, BHF should be on notice that documents presented by Iran in such transactions are not reliable and BHF Bank assumes the risk that a designated Iranian banks may be behind some transactions it processes. Dr. Kruse promised to contact BHF personally to address U/S Levey's concerns.

¶ 17. (S) During a meeting at the Finance Ministry, Director General Dr. Rolf Wenzel provided BHF's response to some of the U.S. concerns (Note. The same information had previously been provided to German officials and it was apparent that U.S. concerns were discussed with BHF prior to U/S Levey's visit. End Note.). According to Wenzel, BHF stated they had no accounts for the companies specifically mentioned in the points passed and "did not know them." Wenzel added that BHF has reduced its credit exposure in Iran from 80 million to 25 million Euros. In response, U/S Levey noted that the risk is not their exposure but rather their provision of payment services to Iran.

¶ 18. (S) At the MFA, U/S Levey stated that there is no evidence that BHF was aware of the involvement of designated banks in transactions, but he noted that BHF was possibly "willfully blind" to the potential involvement of such banks. At the Chancellery, Vorbeck, (charged with oversight of the German Federal Intelligence Agency and responsible for coordination of information between Germany's various intelligence services), noted that it was difficult for his office to find points for intervention against BHF Bank, due to its German domicile. He suggested that the Finance Ministry and Germany's bank regulator BaFin are better suited to press the

urgency of this case.

¶19. (S) U/S Levey explained the concerns surrounding BHF Bank to German Chancellor Angela Merkel's Chief Economic Advisor, Dr. Jens Weidmann. Weidmann repeated information provided by the Finance Ministry, namely that BHF had reduced its credit exposure to Iran, to which U/S Levey replied that it was the provision of payment services, not the credit exposure, which was a proliferation concern. Weidmann also repeated that BHF Bank asserts that they have no accounts for, or knowledge of, the Iranian or Malaysian companies previously discussed. In response to Weidmann's inquiry about suggested next steps regarding BHF Bank, U/S Levey asked the Germans to talk to the BHF Bank and discuss next steps with the U.S. thereafter. He also stressed that it is the government's responsibility to adhere to UN sanctions.

U.S. PRODUCTS IN IRAN

¶10. (S) At the Finance Ministry, Wenzel and U/S Levey discussed exports to Iran. Wenzel asserted that German small- and medium-sized enterprises (the "Mittelstand") have shown restraint in their exports to Iran, but that they are angry about what they view as U.S. companies' evasion of sanctions and widespread trans-shipment of goods through Kuwait and the United Arab Emirates. He also repeated oft-heard Mittlestand concerns that China and, increasingly, Russia are filling the gaps created by German firms reducing their exports.

¶11. (S) In response, U/S Levey acknowledged that the reports of trans-shipments of goods from the U.S. to Iran via Dubai were "troubling". He noted that he has visited Dubai nine times and has pushed Emirati Authorities in Dubai to improve their customs oversight. The officials welcomed U/S Levey's news that OFAC's maximum authority to levy fines has been raised for such violations from USD 11,000 to USD 500,000. U/S Levey also promised to "make examples" of U.S. companies violating the law and suggested public announcements of prosecutions would follow soon. He also promised to address any reports reaching him of U.S. companies exporting to Iran via foreign subsidiaries. U/S Levey also pointed out that U.S. exports to Iran remain extremely low, and those goods directly shipped from the U.S. are limited to humanitarian good, medicines and agricultural products. Wenzel concluded

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the meeting by stating that this new information will help the Finance Ministry argue its case with the Mittlestand. While the large companies understand the issue, Wenzel said, the Mittlestand feels threatened, particularly when U.S. companies' exports get on their radar.

COMMENT

¶12. (S) Germany's lukewarm response (and unwillingness as of yet to take action) to information provided on BHF Bank's Iran transactions indicates the need to keep the bank on senior German officials' radar. Germany continues to prefer pursuing most actions within the largest possible multilateral framework, although policymakers agree in principle on the need for urgent action. However, Germany's view of targeted measures differs in that it seeks to target only the specific illicit activities as opposed to targeting activities that are being exploited for illicit purposes. The German government welcomed U/S Levey's information on OFAC's more robust prosecution abilities and demonstrated a willingness to consider new approaches to sector-specific sanctions such as marine insurance.

¶13. (S) This cable has been cleared with U/S Levey's office.
Timken Jr